

SARANAC PUBLIC LIBRARY

FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Saranac Public Library
Saranac, Michigan

We have audited the accompanying financial statements of the governmental activities and each major fund of Saranac Public Library, as of and for the year ended September 30, 2008, which collectively comprise the Library's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Saranac Public Library's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Saranac Public Library as of September 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 20, 2008, on our consideration of Saranac Public Library's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts and grants.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 22 are not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Directors
Saranac Public Library

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Saranac Public Library's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

A handwritten signature in cursive script that reads "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

October 20, 2008

This section of Saranac Public Library's annual financial report presents discussion and analysis of the Library's financial performance during the fiscal year ended September 30, 2008. It is best read in conjunction with the Library's financial statements that follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Saranac Public Library financially as a whole. The *Government-wide Financial Statements* provide information about the activities of the entire Library, presenting both an aggregate view of the Library's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the Library's operations in more detail than the government-wide financial statements by providing information about the Library's most significant fund - the General Fund - with all other funds presented in one column as non-major funds.

Management's Discussion and Analysis (MD&A)
(Required Supplemental Information)

Basic Financial Statements

Government-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund
(Required Supplemental Information)

Other Supplemental Information

Reporting The Library As A Whole - Government-Wide Financial Statements

One of the most important questions asked about the Library is, "As a whole, what is the Library's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the Library's financial statements, report information on the Library as a whole and its activities in a way that helps you answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Library's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the Library's financial health or financial position. Over time, increases or decreases in the Library's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the Library's operating results. However, the Library's goal is to provide services to residents, not to generate profits as commercial entities do. One must consider many other non-financial factors to assess the overall health of the Library.

The statement of net assets and statement of activities report the governmental activities for the Library, which encompass all of the Library's services, including resources and community enrichment. Property taxes and Penal Fines finance most of these activities.

Reporting The Library's Most Significant Funds - Fund Financial Statements

The Library's fund financial statements provide detailed information about the most significant funds - not the Library as a whole. Some funds are required to be established by State law and by bond covenants. However, the Library establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the Library use the following accounting approach:

Governmental Funds - All of the Library's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the Library and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Library's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

The Library As A Whole

The statement of net assets provides the perspective of the Library as a whole. Table 1 provides a summary of the Library's net assets as of September 30, 2008:

TABLE 1	Governmental Activities (In Thousands)
ASSETS	
Current and other assets	\$ 917.1
Capital assets - Net of accumulated depreciation	<u>269.5</u>
TOTAL ASSETS	<u>1,186.6</u>
LIABILITIES	
Current liabilities	4.3
Long-term liabilities	<u>0.5</u>
TOTAL LIABILITIES	<u>4.8</u>
NET ASSETS	
Invested in property and equipment - Net of related debt	269.5
Restricted	0.0
Unrestricted	<u>912.3</u>
TOTAL NET ASSETS	<u>\$ 1,181.8</u>

The above analysis focuses on the net assets (see Table 1). The change in net assets (see Table 2) of the Library's governmental activities is discussed below. The Library's net assets were \$1,181.8 thousand at September 30, 2008. Capital assets, net of related debt totaling \$269.5 thousand compares the original cost, less depreciation of the Library's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the acquisition of those assets. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the Library's ability to use those net assets for day-to-day operations. The remaining amount of net assets (\$912.3 thousand) was unrestricted.

The \$912.3 thousand in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the Library as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2	Governmental Activities	
	(In Thousands)	
	2008	2007
REVENUE		
Program Revenue		
Penal Fines	\$ 96.6	\$ 95.8
Grants and categoricals	---	---
General Revenue		
Property taxes	291.1	267.0
State Aid	---	7.1
Other	42.6	45.9
TOTAL REVENUE	\$ 430.3	\$ 415.8
FUNCTION/PROGRAM EXPENSES		
General Government	\$ ---	\$ ---
Public Safety	---	---
Roads	---	---
Community Enrichment	249.9	240.2
Depreciation (unallocated)	11.8	23.3
TOTAL FUNCTION/PROGRAM EXPENSES	261.7	263.5
INCREASE IN NET ASSETS	\$ 168.6	\$ 152.3

As reported in the statement of activities, the cost of all governmental activities this year was \$261.7 thousand. Certain activities were partially funded from those who benefited from the programs (\$96.6 thousand) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$0.0 thousand). The remaining "public benefit" portion of our governmental activities was paid for with \$291.1 thousand in taxes, \$0.0 thousand in State Aid, and with our other revenue, such as interest and general entitlements.

The Library As A Whole (Continued)

The Library experienced an increase in net assets of \$168.6 thousand. The key reason for the change in net assets was conservative expenditures. The increase in net assets differs from the change in fund balance and a reconciliation appears on page 13.

As discussed above, the net cost shows the financial burden that was placed on the State and the Library's taxpayers by each of these functions. Since property taxes and penal fines constitute the vast majority of the Library's operating revenue sources, the Board of Directors must annually evaluate the needs of the Library and balance those needs with available unrestricted resources.

The Library's Funds

As we noted earlier, the Library uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the Library is being accountable for the resources taxpayers and others provide to it and may provide more insight into the Library's overall financial health.

As the Library completed this year, the governmental funds reported a combined fund balance of \$912.8 thousand, which is an increase of \$173.6 thousand from last year. The primary reason for the increase was controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$173,605 to \$912,837, which is greater than the budgeted increase of \$0.

General Fund Budgetary Highlights

Over the course of the year, the Library amends its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the Library's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Economic Factors And Next Year's Budgets And Rates

The Libraries' Boards and administration considered many factors when setting the Libraries' 2008-09 fiscal year budgets. Interest rates on the Library's savings accounts should be consistent. The Library's taxable value will be higher, increasing the property tax revenue. Expenditures will be very consistent with last year.

Capital Asset And Debt Administration

Capital Asset

At September 30, 2008, the Library had \$269.5 thousand invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$4,962 or 2 percent, from last year.

	<u>2008</u>	<u>2007</u>
Buildings	\$ 36,072	\$ 36,072
Improvements	253,301	246,459
Vehicles	---	---
Equipment	<u>21,824</u>	<u>21,824</u>
Total Capital Assets	<u>311,197</u>	<u>304,355</u>
Less Accumulated Depreciation	<u>41,693</u>	<u>29,889</u>
Net Capital Assets	<u>\$ 269,504</u>	<u>\$ 274,466</u>

Other obligations consist of employee-compensated absences.

Contacting The Library's Financial Management

This financial report is designed to provide the Library's citizens, taxpayers, customers, investors and creditors of Saranac Public Library with a general overview of the Library's finances and to demonstrate the Library's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Library Manager, 61 Bridge Street, P.O. Box 27, Saranac, Michigan 48881.

STATEMENT OF NET ASSETS**SEPTEMBER 30, 2008**

	<u>Governmental Activities</u>
ASSETS	
Current Assets	
Cash	\$ 802,290
Investments	114,834
Accounts Receivable	---
Prepaid Expenditures	---
Total Current Assets	<u>917,124</u>
Non-Current Assets	
Capital Assets	311,197
Less: Accumulated Depreciation	<u>-41,693</u>
Total Non-Current Assets	<u>269,504</u>
TOTAL ASSETS	<u>\$ 1,186,628</u>
 LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 1,659
Accrued Salaries and Expenses	2,628
Accrued Interest	---
Deferred Revenue	---
Total Current Liabilities	<u>4,287</u>
Non-Current Liabilities	
Bonds Payable	---
Compensated Absences and Severance Pay	<u>515</u>
Total Non-Current Liabilities	<u>515</u>
TOTAL LIABILITIES	<u>4,802</u>
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	269,504
Restricted for Debt Service	---
Unrestricted	<u>912,322</u>
TOTAL NET ASSETS	<u>1,181,826</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,186,628</u>

See Accompanying Notes to Financial Statements

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2008

		<u>Program Revenues</u>		<u>Governmental Activities</u>
	<u>Expenses</u>	<u>Charges For Services</u>	<u>Operating Grants</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
FUNCTIONS/PROGRAMS				
Governmental Activities				
General Government	\$ ---	\$ ---	\$ ---	\$ ---
Public Safety	---	---	---	---
Roads	---	---	---	---
Community Enrichment	249,860	96,586	---	-153,274
Interest on Long-Term Debt	---	---	---	---
Depreciation (Unallocated)	<u>11,804</u>	<u>---</u>	<u>---</u>	<u>-11,804</u>
Total Governmental Activities	<u>\$ 261,664</u>	<u>\$ 96,586</u>	<u>\$ ---</u>	<u>\$ -165,078</u>
General Revenue				
Taxes				
Property Taxes, Levied for General Operations				\$ 291,105
Property Taxes, Levied for Debt Service				---
State of Michigan Aid, Unrestricted				---
Interest Earnings				31,254
Other				<u>11,362</u>
Total General Revenue				<u>333,721</u>
CHANGE IN NET ASSETS				168,643
NET ASSETS - BEGINNING OF YEAR				<u>1,013,183</u>
NET ASSETS - END OF YEAR				<u><u>\$ 1,181,826</u></u>

See Accompanying Notes to Financial Statements.

SARANAC PUBLIC LIBRARY

Fund Financial

GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2008

	General	Other Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and Investments	\$ 917,124	\$ ---	\$ 917,124
Accounts Receivable	---	---	---
Due from Other Governmental Units	---	---	---
Due from Other Funds	---	---	---
Inventories	---	---	---
Prepaid Expenditures	---	---	---
TOTAL ASSETS	\$ 917,124	\$ ---	\$ 917,124
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts Payable	\$ 1,659	\$ ---	\$ 1,659
Accrued Salaries and Withholdings	2,628	---	2,628
Due to Other Funds	---	---	---
Deferred Revenue	---	---	---
TOTAL LIABILITIES	4,287	---	4,287
FUND BALANCES			
Reserved for Inventories	---	---	---
Reserved for Future Purchases	5,000	---	5,000
Unreserved and Undesignated	907,837	---	907,837
TOTAL FUND BALANCES	912,837	---	912,837
TOTAL LIABILITIES AND FUND BALANCES	\$ 917,124	\$ ---	\$ 917,124
TOTAL GOVERNMENTAL FUND BALANCES			\$ 912,837
Amounts reported for governmental activities in the statement of net assets are different because:			
- Capital assets used in governmental activities are not financial resources, and are not reported in the funds:			
Cost of the Capital Assets is			311,197
Accumulated Depreciation is			<u>-41,693</u>
			269,504
- Long-term Liabilities are not due and payable in the current period and are not reported in the fund			
Bonds Payable			---
Compensated absences			<u>-515</u>
- Accrued interest is not included as a liability in governmental funds			<u>---</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES			<u>\$ 1,181,826</u>

See Accompanying Notes to Financial Statements.

GOVERNMENTAL FUNDS
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES

YEAR ENDED SEPTEMBER 30, 2008

	General	Other Funds	Totals
REVENUE			
Property Taxes	\$ 291,105	\$ ---	\$ 291,105
State Grants	---	---	---
Penal Fines	96,586	---	96,586
Investment	31,254	---	31,254
Other	11,362	---	11,362
TOTAL REVENUE	430,307	---	430,307
EXPENDITURES			
General Government	---	---	---
Public Safety	---	---	---
Public Works	---	---	---
Recreational and Cultural	249,860	---	249,860
Debt Service	---	---	---
Capital Outlay	6,842	---	6,842
TOTAL EXPENDITURES	256,702	---	256,702
EXCESS OF REVENUE OVER EXPENDITURES	173,605	---	173,605
OTHER FINANCING SOURCES			
Operating Transfers In	---	---	---
Operating Transfers Out	---	---	---
TOTAL OTHER FINANCING SOURCES	---	---	---
NET CHANGE IN FUND BALANCES	173,605	---	173,605
FUND BALANCES - BEGINNING OF YEAR	739,232	---	739,232
FUND BALANCES - END OF YEAR	\$ 912,837	\$ ---	\$ 912,837

See Accompanying Notes to Financial Statements.

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES**

YEAR ENDED SEPTEMBER 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS **\$ 173,605**

Amounts reported for governmental activities in the statement of activities are different because:

- Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation.

Depreciation Expense	\$ -11,804	
Capital Outlay	<u>6,842</u>	
		-4,962

- Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid ---

- Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt) ---

- Uncollected property tax revenue is deferred in the governmental funds, but not in the statement of activities ---

- Compensated absences are included in expenditures in the statement of activities but not in the governmental funds ---

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES **\$ 168,643**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Library conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY

The Library is a component unit of the Village of Saranac. The Library has two branches, one in Saranac and one in Clarksville. The Library Board has seven members, five appointed by the Village of Saranac and two appointed by the Village of Clarksville.

B. BASIS OF PRESENTATION**Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenue, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenue are reported instead as general revenue.

Government-Wide Statements - The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flow. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

B. BASIS OF PRESENTATION (CONTINUED)

Fund Financial Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenue to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

GOVERNMENTAL FUNDS

General Fund - The General Fund is the general operating fund of the Library. It is used to account for all financial resources except those required to be accounted for in another fund.

C. BUDGETS AND BUDGETARY ACCOUNTING

The General Fund is under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.

P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Library's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Library for these budgetary funds were adopted at the functional level.

D. PROPERTY TAXES

Ionia County assesses millage for library operations. The various libraries in the County receive property tax revenue based on the libraries that they serve. Saranac Public Library receives 100% of the library revenue collected from Boston Township and Campbell Township, and 50% of the library revenue from Keene Township and Berlin Township. Total property tax revenue for the year ended September 30, 2008, were \$291,105.

E. CASH EQUIVALENTS

The Library considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

F. FINANCIAL INSTRUMENTS

The Library does not require collateral to support financial instruments subject to credit risk.

G. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

H. FUND EQUITY

Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.

I. CAPITAL ASSETS

Capital assets, which include land, buildings, equipment and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and Improvements	15-50 years
Vehicles	5-20 years
Other equipment	5-20 years

J. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

K. TOTAL COLUMNS ON COMBINED STATEMENTS

Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with United States generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.

L. ESTIMATES

The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - ACCUMULATED FUND DEFICITS

There were no accumulated fund deficits at September 30, 2008.

NOTE 3 - DUE TO/FROM OTHER FUNDS

There were no due to/due from at September 30, 2008.

NOTE 4 - EXPENDITURES IN EXCESS OF BUDGET

During the year ended September 30, 2008, the Library incurred no expenditures that were in excess of the amounts budgeted.

NOTE 5 - RETIREMENT PLAN

Effective October 1, 2005, the Library has adopted a SEP plan for employees to contribute into a retirement plan, and a 403(b) plan for Library contributions for the employees. Total contributions for the year ended September 30, 2008 were \$2,632.

NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS

A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS:

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Library, by resolution, may authorize investment of surplus funds as follows:

1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).
3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
4. In United States government or Federal agency obligation repurchase agreements.
5. In bankers' acceptances of United States banks.
6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library is in compliance with State law regarding their cash deposits.

The Library maintains its cash deposits at four banks and two investment companies.

The Governmental Accounting Standards Board Statement No. 3 risk disclosures for the Library's cash deposits are as follows:

<u>Deposits</u>	<u>Book Value</u>	<u>Carrying Amounts</u>
Insured (FDIC and SIPC)	\$ 347,326	\$ 347,326
Uninsured & Uncollateralized	454,964	487,832
Total Deposits	<u>\$ 802,290</u>	<u>\$ 835,158</u>

The differences between the book value and the bank carrying amounts are caused by deposits in transit and outstanding checks.

NOTE 7 - CAPITAL ASSETS

Capital asset activity of the Library's Governmental activities was as follows:

	Balance October 1, 2007	Additions	Disposals and Adjustments	Balance September 30, 2008
Capital assets being depreciated:				
Buildings	\$ 36,072	\$ ---	\$ ---	\$ 36,072
Improvements	246,459	6,842	---	253,301
Vehicles	---	---	---	---
Furniture and Equipment	21,824	---	---	21,824
Subtotal	304,355	6,842	---	311,197
Accumulated depreciation:				
Buildings	1,072	---	---	1,072
Improvements	24,416	8,250	---	32,666
Vehicles	---	---	---	---
Furniture and Equipment	4,401	3,554	---	7,955
Subtotal	29,889	11,804	---	41,693
Net capital assets	\$ 274,466	\$ -4,962	\$ ---	\$ 269,504

Depreciation expense was not charged to activities as the Library considers its assets to impact multiple activities and allocation is not practical.

NOTE 8 - INVESTMENTS

Investments consist of mutual funds and are valued at market value at September 30, 2008.

NOTE 9 - RISK MANAGEMENT AND LITIGATION

The Library is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. For the past several years the Library has obtained coverage from commercial insurance companies and has effectively managed risk through various employee education and prevention programs. All risk management activities are accounted for in the General Fund. Expenditures and claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. At September 30, 2008, no claims exist, and no provision has been entered into the accounting records.

NOTE 10 - FUND BALANCE RESTRICTIONS

Based on a donor restriction, \$5,000 of fund balance is restricted for future purchases.

NOTE 11 - CONTRACTS

The Library is working under an agreement to provide management services for the Village of Clarksville Library and to also add representatives, appointed by the Village of Clarksville, to its Board of Directors.

NOTE 12 - LEASES

The Library entered into a lease agreement on October 2, 2006 for space for its Clarksville branch. The lease is a ten-year agreement with monthly rent due of \$350. The monthly rent increases by 3% per year. The lease agreements require the former owner to make all lease payments through 2009. The total amount paid in the year ended September 30, 2008 was \$0. Future lease obligations are as follows:

<u>Year Ending September 30</u>	<u>Annual Rent</u>
2009	\$ ---
2010	4,590
2011	4,727
2012	4,869
2013	5,015
2014	5,165
2015	5,320
2016	5,480

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE

YEAR ENDED SEPTEMBER 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Property Taxes	\$ 254,000	\$ 254,000	\$ 291,105	\$ 37,105
State Revenue	---	---	---	---
Penal Fines	85,000	85,000	96,586	11,586
Investment	11,100	11,100	31,254	20,154
Other	9,670	9,670	11,362	1,692
Transfers In	---	---	---	---
TOTAL REVENUE	359,770	359,770	430,307	70,537
EXPENDITURES				
General Government	---	---	---	---
Public Safety	---	---	---	---
Public Works	---	---	---	---
Recreation and Culture	292,160	292,160	249,860	42,300
Debt Service	---	---	---	---
Capital Outlay	67,610	67,610	6,842	60,768
Other Uses - Operating Transfers Out	---	---	---	---
TOTAL EXPENDITURES	359,770	359,770	256,702	103,068
EXCESS OF REVENUE OVER EXPENDITURES AND OTHER USES	---	---	173,605	173,605
BUDGETARY FUND BALANCE - OCTOBER 1, 2007	739,232	739,232	739,232	---
BUDGETARY FUND BALANCE - SEPTEMBER 30, 2008	\$ 739,232	\$ 739,232	\$ 912,837	\$ 173,605

OTHER SUPPLEMENTAL INFORMATION

COMBINING BALANCE SHEET

SEPTEMBER 30, 2008

	Saranac Library	Clarksville Library	Total
ASSETS			
Petty Cash	\$ 25	\$ 25	\$ 50
Cash Checking	97,690	55,007	152,697
Cash Savings	509,225	140,318	649,543
Investments	114,834	---	114,834
TOTAL ASSETS	\$ 721,774	\$ 195,350	\$ 917,124

LIABILITIES AND FUND BALANCE

LIABILITIES			
Accounts Payable	\$ 1,256	\$ 403	\$ 1,659
Payroll Taxes Payable	2,628	---	2,628
TOTAL LIABILITIES	3,884	403	4,287
FUND BALANCE	717,890	194,947	912,837
TOTAL LIABILITIES AND FUND BALANCE	\$ 721,774	\$ 195,350	\$ 917,124

SARANAC PUBLIC LIBRARY

General Fund

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE

YEAR ENDED SEPTEMBER 30, 2008

	Saranac Library	Clarksville Library	Total
REVENUE			
Property Taxes	\$ 226,431	\$ 64,674	\$ 291,105
Donations	915	300	1,215
Penal Fines	72,424	24,162	96,586
Daily Transactions	7,076	3,065	10,141
Investment Income	26,072	5,182	31,254
Miscellaneous	6	---	6
State Aid Grant	---	---	---
TOTAL REVENUE	332,924	97,383	430,307
EXPENDITURES			
Wages	83,729	29,083	112,812
Payroll Taxes	6,426	2,225	8,651
Employee Benefits	1,137	779	1,916
Collections/ Books	22,170	10,367	32,537
Mileage Reimbursement	1,798	772	2,570
Bank Fees	799	7	806
Advertising	312	101	413
Repairs and Maintenance	15,265	1,294	16,559
Insurance	2,339	703	3,042
Supplies	18,740	5,153	23,893
Lakeland Library Cooperative	19,960	6,701	26,661
Miscellaneous	3,849	259	4,108
Summer Reading	---	258	258
Continuing Education	760	---	760
Utilities and Telephone	6,153	3,392	9,545
Professional Fees	1,000	1,000	2,000
Dues and Subscriptions	504	---	504
Program Expense	2,221	604	2,825
Capital Outlay	---	6,842	6,842
TOTAL EXPENDITURES	187,162	69,540	256,702
EXCESS OF REVENUE OVER EXPENDITURES	145,762	27,843	173,605
BALANCE - BEGINNING OF YEAR	572,128	167,104	739,232
BALANCE - END OF YEAR	\$ 717,890	\$ 194,947	\$ 912,837

**STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCE
BUDGET AND ACTUAL**

YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Property Taxes	\$ 200,000	\$ 226,431	\$ 26,431
Donations	1,750	915	-835
Penal Fines	65,000	72,424	7,424
Daily Transactions	3,800	7,076	3,276
Investment Income	9,500	26,072	16,572
Miscellaneous	---	6	6
State Aid Grant	---	---	---
TOTAL REVENUE	280,050	332,924	52,874
EXPENDITURES			
Wages	105,000	83,729	21,271
Payroll Taxes	8,100	6,426	1,674
Employee Benefits	9,500	1,137	8,363
Collections/Books	22,950	22,170	780
Mileage Reimbursement	1,800	1,798	2
Bank Fees	---	799	-799
Advertising	250	312	-62
Repairs and Maintenance	8,000	15,265	-7,265
Insurance	6,000	2,339	3,661
Supplies	19,650	18,740	910
Lakeland Library Cooperative	20,000	19,960	40
Miscellaneous	1,500	3,849	-2,349
Summer Reading	---	---	---
Continuing Education	2,500	760	1,740
Utilities and Telephone	9,800	6,153	3,647
Professional Fees	2,700	1,000	1,700
Dues and Subscriptions	450	504	-54
Program Expense	2,500	2,221	279
Capital Outlay	59,350	---	59,350
TOTAL EXPENDITURES	280,050	187,162	92,888
EXCESS OF REVENUE OVER EXPENDITURES	---	145,762	145,762
BALANCE - BEGINNING OF YEAR	572,128	572,128	---
BALANCE - END OF YEAR	\$ 572,128	\$ 717,890	\$ 145,762

SARANAC PUBLIC LIBRARY

Clarksville Library

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2008

	Budget	Actual	Variance Favorable <Unfavorable>
REVENUE			
Property Taxes	\$ 54,000	\$ 64,674	\$ 10,674
Donations	300	300	---
Penal Fines	20,000	24,162	4,162
Daily Transactions	3,820	3,065	-755
Investment Income	1,600	5,182	3,582
Miscellaneous	---	---	---
State Aid Grant	---	---	---
TOTAL REVENUE	79,720	97,383	17,663
EXPENDITURES			
Wages	33,550	29,083	4,467
Payroll Taxes	2,560	2,225	335
Employee Benefits	2,000	779	1,221
Collections/Books	9,450	10,367	-917
Mileage Reimbursement	600	772	-172
Bank Fees	---	7	-7
Advertising	150	101	49
Repairs and Maintenance	1,500	1,294	206
Supplies	3,950	5,153	-1,203
Insurance	1,500	703	797
Lakeland Library Cooperative Program Expenses	8,000	6,701	1,299
Miscellaneous	300	259	41
Summer Reading	1,100	258	842
Continuing Education	500	---	500
Utilities and Telephone	3,350	3,392	-42
Professional Fees	2,200	1,000	1,200
Dues and Subscriptions	250	---	250
Program Expenses	500	604	-104
Capital Outlay	8,260	6,842	1,418
TOTAL EXPENDITURES	79,720	69,540	10,180
EXCESS OF REVENUE OVER EXPENDITURES	---	27,843	27,843
BALANCE - BEGINNING OF YEAR	167,104	167,104	---
BALANCE - END OF YEAR	\$ 167,104	\$ 194,947	\$ 27,843

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors
Saranac Public Library

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Saranac Public Library, as of and for the year ended September 30, 2008, which collectively comprise the Saranac Public Library's basic financial statements and have issued our report thereon dated October 20, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Library's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Library's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Saranac Public Library's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Library's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Library's financial statements that is more than inconsequential will not be prevented or detected by the Library's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Audit Adjustments

As part of the audit process, adjusting entries were recommended to management and consequently made to adjust various general ledger balances as of September 30, 2008. These journal entries were necessary in order for the financial statements to be materially correct.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Library's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Saranac Public Library's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We noted certain matters that we reported to management of the Saranac Public Library in a separate letter dated October 20, 2008.

This report is intended for the information and use of the Board of Directors, management, and the State of Michigan. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script, reading "Karl L. Drake".

Karl L. Drake, P.C.
Certified Public Accountant

October 20, 2008

Karl L. Drake, P.C.
Certified Public Accountant

3775 Kimmel Road
Fax

(517) 937-9333 Phone / 563-2552

October 20, 2008

To the Board of Directors of
Saranac Public Library

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Saranac Public Library for the year ended September 30, 2008, and have issued our report thereon dated October 20, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated June 13, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated June 13, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Saranac Public Library are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during this fiscal year. We noted no transactions entered into by the governmental unit, during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future

events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation is based on useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

The disclosure of insured and uninsured deposits in Note 6 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures, and corrected by management, were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated October 20, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. The primary discussions held this year revolved around the uninsured deposits in financial institutions. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

This information is intended solely for the use of Saranac Public Library, management of Saranac Public Library and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in cursive script that reads "Karl L. Drake". The signature is written in dark ink and is positioned above the printed name.

Karl L. Drake, P.C.